# Supplemental Reporting Document
# Table of Contents
# February 2009 Investment Committee Meeting
# (December 2008 Reporting Period)

**Quarterly Reports**

CalPERS
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February 17, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

**I. SUBJECT:** Quarterly Performance Report

**II. PROGRAM:** Alternative Investment Management (AIM) Program

**III. RECOMMENDATION:** Consent

**IV. ANALYSIS:**

**Background**

In accordance with AIM Program Policy and as provided for in the external resources' contracts, quarterly performance reports are required for the AIM Program. Attachment 1 provides the AIM Portfolio Performance Report as of September 30, 2008. The report may be modified over time to reflect additional enhancements.

**Program Review**

As of September 30, 2008, the AIM Program had a total exposure of $47.9 billion. Since inception, the AIM Program has made contributions of $39.5 billion and received distributions of $26.2 billion and has a reported value of $23.1 billion. Of the $26.2 billion in distributions, $14.2 billion represents realized gains, income, and dividends. The AIM Program has realized a 1.3x return of contributed capital. Since Inception to September 30, 2008, the AIM Program has generated a net IRR of 10.8%.

**V. STRATEGIC PLAN:**

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

Attachment 1 provides the Executive Summary for the Alternative Investment Management Program - Quarterly Review prepared by the Private Edge group of State Street Corporation and verified by the Performance Monitoring Unit staff.

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Performance Monitoring Unit

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Kenneth W. Marzion
Interim Chief Operating
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Interim Chief Investment Officer

ATTACHMENT 1

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

## ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM

## QUARTERLY REVIEW

## EXECUTIVE SUMMARY

***For the quarter ended***
***September 30, 2008***

***Prepared by The Private Edge® Group, State Street Corporation***

STATE STREET.

## *TABLE OF CONTENTS*

## *TABLE OF CONTENTS (Continued)*

***Page***

**TABLES**



**FIGURES**

# I. ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM (AIM)

## A. AIM PROGRAM - OVERALL PORTFOLIO

This quarterly review has been prepared by The Private Edge® Group ("PEG") at State Street Corporation and verified by the Performance Monitoring Unit Staff, based on cash flow, valuation and activity data captured by PEG and various AIM Program External Resources. Specific highlights of the portfolio are given below.

**Portfolio Summary**

- As of September 30, 2008, the AIM Program had a total exposure of $47.9 billion. Total exposure is the current reported value of investments plus the remaining amount of unfunded commitments.
- Since inception, the AIM Program has made contributions of $39.5 billion, received distributions of $26.2 billion and has a remaining reported value of $23.1 billion. Of the $26.2 billion in distributions, $14.2 billion represents realized gains, income and dividends.

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**SUMMARY OF AIM PORTFOLIO**
**SINCE INCEPTION (MARCH 1990) THROUGH SEPTEMBER 30, 2008**
**(US$ IN MILLIONS)**

| | Capital Contributed[3] | Distributions | | Reported Value[5] | Investment Multiple |
|---|---|---|---|---|---|
| | | Return of Capital | Realized Gain[4] | | |
| ***Total Active Commitments[1]*** | **$32,989.1** | **$7,389.3** | **$10,400.2** | **$23,139.5** | **1.2x** |
| ***Total Exited Commitments[2]*** | **$6,542.1** | **$4,596.4** | **$3,783.9** | **--** | **1.3x** |

(1) An active commitment refers to an investment that has not reached the end of its legal term.

(2) An exited commitment is defined as a commitment that has ended in accordance with the terms of the partnership agreement.

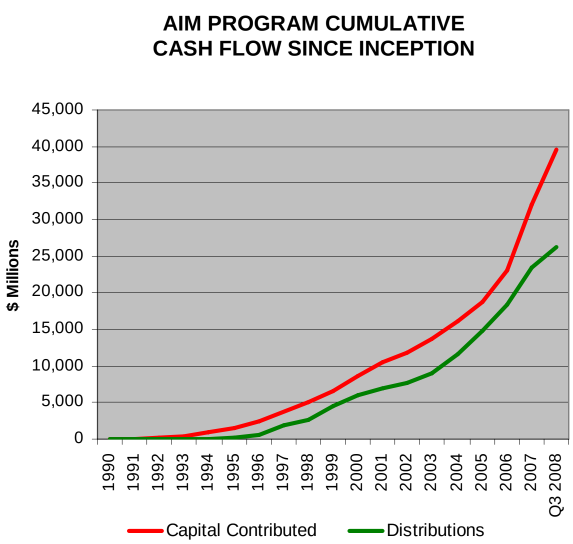
(3) Includes fees in excess of committed capital.

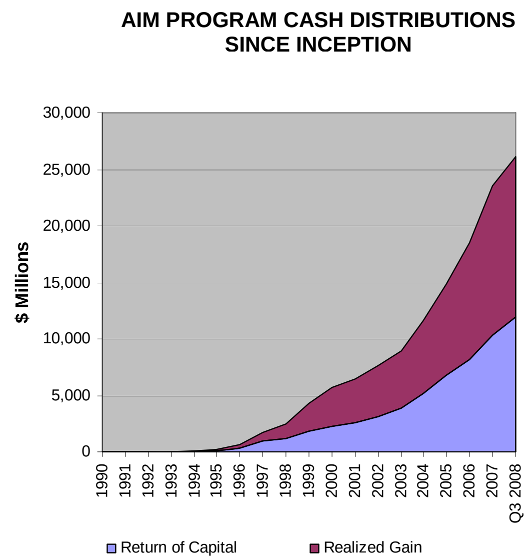
(4) Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

(5) Based on values reported by the general partners as of September 30, 2008.

## Performance

- Since inception to September 30, 2008, the AIM Program generated a net IRR of 10.8%. At September 30, 2008, the public market ten-year rolling average return for the CalPERS' Custom Wilshire 2500 Index plus 300 basis points was 8.5%.
- As of September 30, 2008, the weighted average age of all of the current investments in the AIM portfolio was 3.2 years. Consequently, a large portion of the portfolio is in the early stage of its investment life, when payment of fees has not been offset by young investments that are held at cost. This is known as the J-Curve effect.
- To address the young age of the partnership portfolio, CalPERS adopted a short-term benchmark, the Venture Economics Custom Young Fund Universe. The benchmark measures performance of the AIM partnerships in the first five years of life against a similarly aged universe of Venture Economics data. As of September 30, 2008, the AIM young fund net internal rate of return ("IRR") was 0.9% which trailed the estimate of the September 30, 2008 Custom Young Fund Universe median return of 1.7% by 80 basis points.



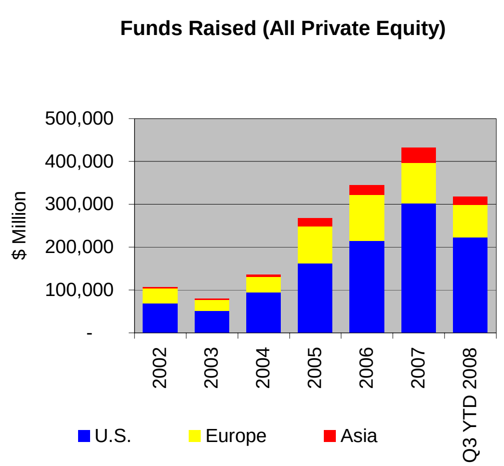

## Portfolio Activity

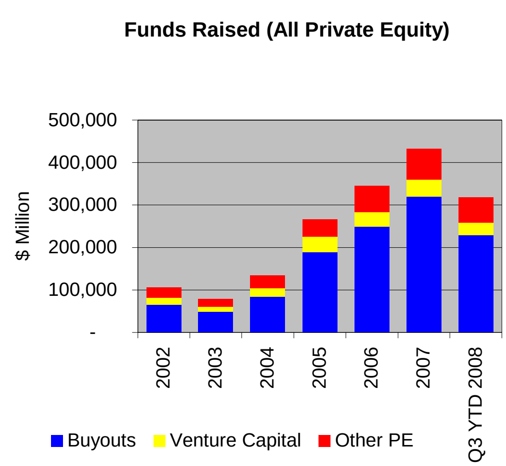
- 2 new commitments were authorized during the third quarter of 2008 for a total of $600 million.
- During the third quarter of 2008 the AIM Program received 100 proposals for new investment opportunities.
- During the first three quarters of 2008, the AIM Program contributed $7.4 billion to and received distributions of $2.6 billion from the underlying portfolio. Of the $2.6 billion in distributions, $1.0 billion represents income and realized gains.

## B. MARKET OVERVIEW

**<u>Market</u>**

- According to the Private Equity Analyst, $318.0 billion was committed globally to 430 funds during the first three quarters of 2008. The commitment pace is up 12% from the first three quarters of 2007 when $284.0 billion was committed globally to 471 funds. Between 2003 - 2007, the global pace of new commitments increased at an annual rate of 53%.
- Commitments to U.S. private equity funds increased by 12% during the first three quarters of 2008 to $222.6 billion, comprising 70% of all new funds. Commitments to European private equity funds grew by 17% during the first three quarters of 2008 to $75.9 billion, comprising 24% of all new funds. Commitments to Asian private equity partnerships declined by 2% during the first three quarters of 2008 to $19.5 billion, comprising 6% of all new funds.
- Venture capital fundraising increased by 12% during the first three quarters of 2008 with $28.2 billion of commitments, comprising 9% of all new funds. Buyout fundraising was up 10% from the first three quarters of 2007 with $229.6 billion committed in the first three quarters of 2008, comprising 72% of all new funds. The remaining $60.3 billion raised in the first three quarters of 2008 was committed to other private equity funds (primarily mezzanine funds, fund of funds and secondary funds), comprising 19% of all new funds.
- Venture capital fundraising increased most rapidly for Asian funds, with a 118% increase in the first three quarters of 2008. European venture capital fundraising declined 16% during the first three quarters of 2008, while U.S. venture capital fundraising increased by 5%. Overall, the average size of a new venture capital fund increased by 7% during the first three quarters 2008 to $168.7 million.
- Buyout fundraising increased most rapidly for European funds, with a 80% increase in the first three quarters of 2008. U.S. and Asian buyout fundraising declined by 2% and 23%, respectively, during the first three quarters of 2008. Overall, the average size of a new buyout fund increased by 22% during the first three quarters of 2008 to $1.2 billion.



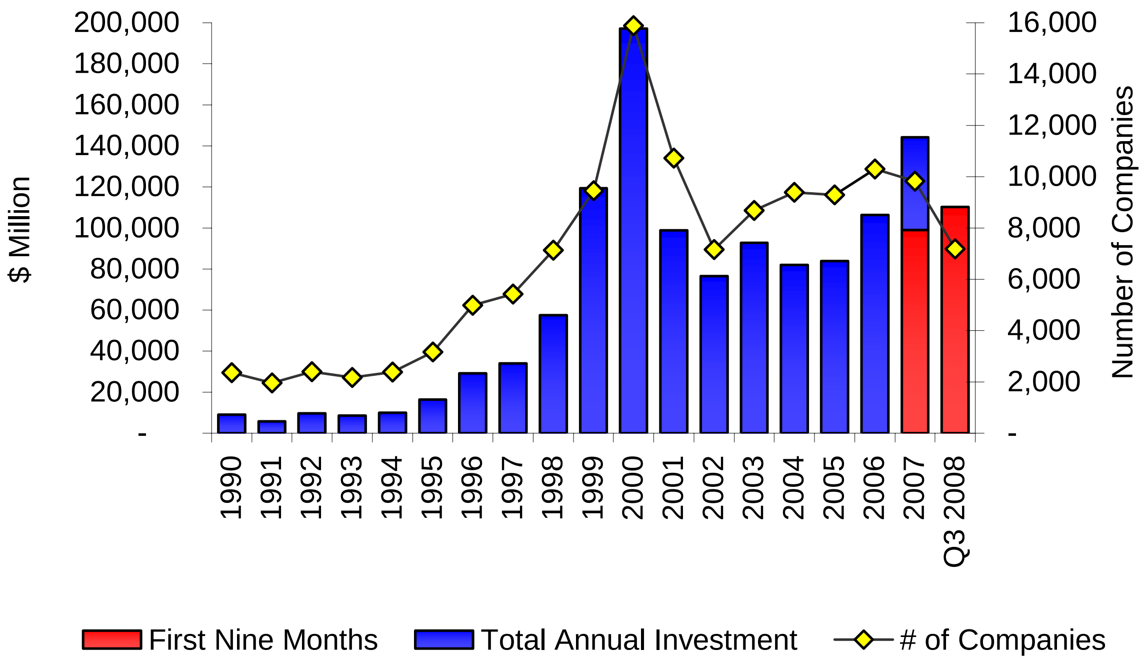




Source: Private Equity Analyst

- Deal activity for all private equity during the first nine months of 2008 increased in dollar amount but decreased in the number of companies receiving funding compared to the first nine months of 2007. According to Venture Economics, 7,186 companies received $110.2 billion in funding in the first nine months of 2008, compared with 7,387 companies that received $94.0 billion in the first nine months of 2007.

- In the first nine months of 2008, venture capital activity increased in dollar amount and in the number of companies receiving funding compared to the first nine months of 2007. According to Venture Economics, 5,460 companies received $59.3 billion in venture funding in the first nine months of 2008 compared with 5,455 companies that received $44.4 billion in the first nine months of 2007. During the first nine months of 2008, buyout activity increased in dollar amount and decreased in the number of companies that received funding. According to Venture Economics, 3,320 companies received $58.3 billion in buyout funding in the first nine months of 2008, compared with 3,672 companies that received $58.1 billion in first nine months of 2007.(6)

**Dollars Invested (All Private Equity)**




Source: Venture Economics

(6) According to Venture Economics, certain investments meet the definitions for both Venture and Buyout categories and are included in the total for each category. For the purposes of determining the Total Private Equity investments for the quarter, these investments are included only once. As such, the sum of Venture and Buyout categories exceeds the Total Private Equity figures for the quarter by the amounts of the investments that meet both Venture and Buyout definitions.

## C. PORTFOLIO OVERVIEW

**Portfolio Diversification – By Strategy**

The AIM Program invests in all types of private equity and is well diversified. The total exposure is generally consistent with the diversification within the private equity marketplace. Thus, a majority of AIM Program's total exposure is to Corporate Restructuring, Distressed Securities, and Venture Capital.

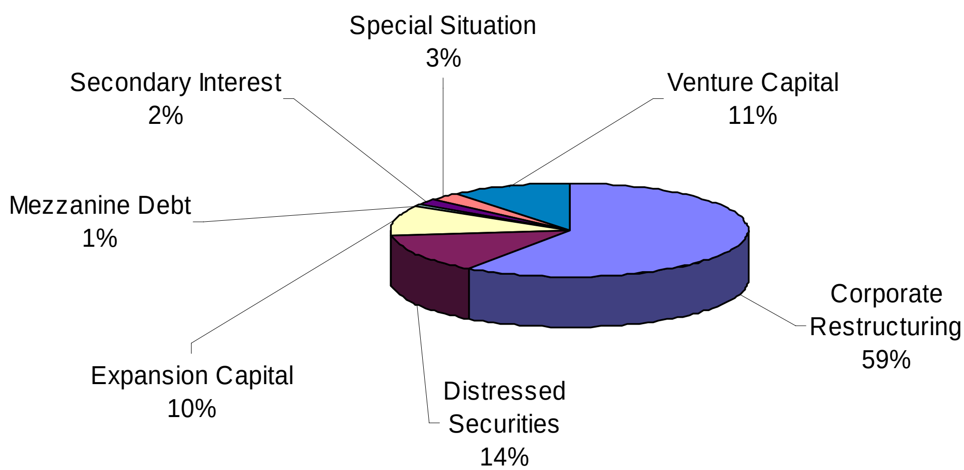
**TOTAL EXPOSURE BY PORTFOLIO STRATEGY**
**(US$MILLION)**

| | Unfunded Commitments | Reported Value | Total Exposure | Contributions | Distributions: Return of Capital | Distributions: Realized Gain[7] |
|---|---|---|---|---|---|---|
| **Corporate Restructuring** | $15,585.8 | $12,982.0 | $28,567.8 | $18,127.0 | $4,255.7 | $7,169.6 |
| **Distressed Securities** | $2,558.1 | $4,000.2 | $6,558.3 | $4,868.4 | $477.8 | $492.6 |
| **Expansion Capital** | $1,983.9 | $2,887.4 | $4,871.3 | $4,233.0 | $772.0 | $945.6 |
| **Mezzanine Debt** | $255.4 | $199.5 | $454.9 | $499.6 | $244.1 | $126.2 |
| **Secondary Interest** | $524.2 | $320.4 | $844.6 | $850.8 | $664.2 | $173.8 |
| **Special Situation** | $948.5 | $547.9 | $1,496.4 | $765.8 | $180.0 | $199.4 |
| **Venture Capital** | $2,951.8 | $2,202.1 | $5,153.9 | $3,644.5 | $795.5 | $1,293.0 |
| **Total** | **$24,807.7** | **$23,139.5** | **$47,947.2** | **$32,989.1** | **$7,389.3** | **$10,400.2** |

(7) Realized gains include interest, dividends and gains distributed by the general partners.

The below graph depicts the AIM Program's strategy diversification by total exposure.

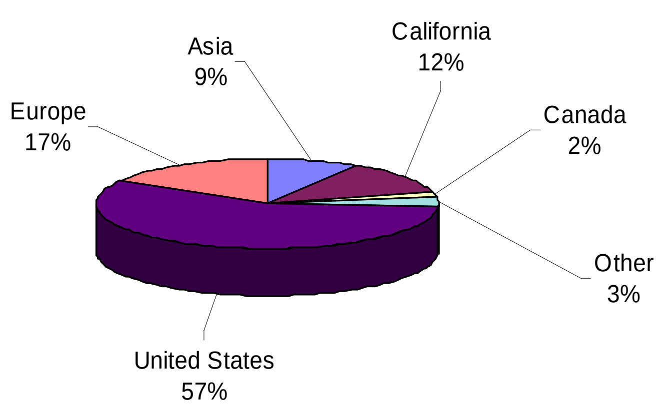
**AIM Program - Portfolio Diversification by Strategy**
**As a Percentage of Total Exposure**
**As of September 30, 2008**




**Portfolio Geographic Diversification**

As of September 30, 2008, CalPERS' AIM portfolio was well diversified by geographic region. By reported market value, 12% of the investments were in companies with their primary locations within California and 57% of the investments were in non-California domestic areas. International portfolio companies represented 31% of the total reported market value of all portfolio companies.

**Portfolio Diversification by Geographic Location**
**As Measured by CalPERS' Reported Value**
**As of September 30, 2008**



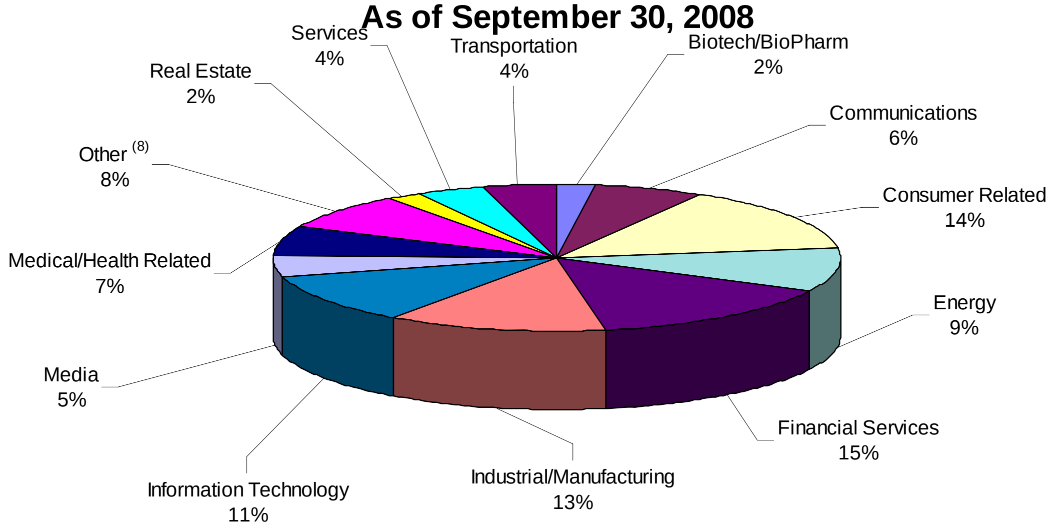
## Portfolio Company Diversification by Industry

As of September 30, 2008, the CalPERS AIM portfolio was broadly diversified by industry. The table below outlines the current reported value of the portfolio companies held in the AIM portfolio. Within the overall portfolio, the largest segments were consumer-related, financial services and industrial/manufacturing.

**PORTFOLIO DIVERSIFICATION BY INDUSTRY**
**AS OF SEPTEMBER 30, 2008**

| Industry | Reported Value *(US$ MILLIONS)* |
|---|---|
| Biotechnology/BioPharm. | $519.1 |
| Communications | $1,415.2 |
| Consumer Related | $3,338.3 |
| Energy | $2,216.2 |
| Financial Services | $3,374.8 |
| Industrial/Manufacturing | $2,879.6 |
| Information Technology | $2,560.9 |
| Media | $1,094.6 |
| Medical/Health Related | $1,501.7 |
| Other (8) | $1,838.9 |
| Real Estate | $450.4 |
| Services | $902.3 |
| Transportation | $937.7 |
| **Total** | **$23,029.7** |

**Portfolio Diversification by Industry**
**As Measured by CalPERS' Reported Value**
**As of September 30, 2008**




(8) Includes CalPERS' investments held through fund-of-funds.



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## California Focus

As of September 30 2008, the AIM Program had $12.4 billion in total exposure to funds that were either headquartered or had a major presence in California. The total exposure to funds that focus primarily on investments in California were $1.4 billion. In addition, many AIM Program partnerships actively make investments in California. Currently, California-based companies represent 12% of the reported market value of the AIM portfolio.

**CALIFORNIA-BASED PORTFOLIO DIVERSIFICATION BY INDUSTRY**
**AS OF SEPTEMBER 30, 2008**

| Industry | Reported Value *(US$ IN MILLIONS)* |
|---|---|
| Biotechnology/BioPharm. | $144.6 |
| Communications | 113.2 |
| Consumer Related | 474.8 |
| Energy | 134.4 |
| Financial Services | 726.9 |
| Industrial/Manufacturing | 57.9 |
| Information Technology | 514.9 |
| Media | 158.8 |
| Medical/Health Related | 254.8 |
| Other [1] | 74.1 |
| Real Estate | 28.6 |
| Services | 61.0 |
| Transportation | 33.2 |
| **Total** | **$2,777.2** |

[9] Includes CalPERS' investments held through fund-of-funds.

The AIM Program includes a California-oriented component that is designed to take advantage of a number of factors conducive to targeted investment activity within the state: (i) the unique size characteristics of the California economy; (ii) the existence of a "capital gap" for certain business segments within the state; and (iii) the ability to construct a diversified array of investment vehicles that reflects the state's large number of business entities and the wide range of development cycles that they represent.

## Commitments and Contributions Since Inception

Since inception to September 30, 2008, CalPERS has contributed capital of $39.5 billion, including exited investments. As expected, the earlier vintage year partnerships have the highest deployment percentage as it typically takes some time for each partnership to call down the full amount of committed capital. The total capital committed by vintage year is presented in the table below.

**SUMMARY OF CAPITAL COMMITMENTS AND CONTRIBUTIONS**
**(US$ IN MILLIONS)**

| *Vintage Year* | *Capital Committed* | *Capital Contributed* | *Reported Value* | *Return of Capital* | *Realized Gain*[10] | *Investment Multiple* |
|---|---|---|---|---|---|---|
| ***1990*** | $125.3 | $121.9 | $0.2 | $119.6 | $176.1 | 2.4x |
| ***1991*** | 171.7 | 179.6 | 0.3 | 150.4 | 358.9 | 2.8x |
| ***1992*** | 160.0 | 156.6 | 0.5 | 109.4 | 232.1 | 2.2x |
| ***1993*** | 563.0 | 560.0 | 8.0 | 461.3 | 614.6 | 1.9x |
| ***1994*** | 1,507.6 | 1,416.9 | 22.0 | 971.3 | 1,425.7 | 1.7x |
| ***1995*** | 1,197.9 | 1,141.4 | 25.6 | 743.4 | 1,148.9 | 1.7x |
| ***1996*** | 1,155.9 | 1,132.5 | 25.3 | 662.9 | 840.9 | 1.4x |
| ***1997*** | 1,111.9 | 1,091.0 | 70.5 | 629.2 | 870.5 | 1.4x |
| ***1998*** | 2,216.7 | 2,178.3 | 294.8 | 1,424.7 | 1,242.4 | 1.4x |
| ***1999*** | 1,205.5 | 1,144.5 | 223.6 | 607.4 | 665.6 | 1.3x |
| ***2000*** | 3,978.2 | 3,679.1 | 1,302.1 | 1,900.1 | 1,789.8 | 1.4x |
| ***2001*** | 4,817.2 | 4,326.8 | 2,436.3 | 1,998.1 | 2,497.2 | 1.6x |
| ***2002*** | 1,093.4 | 1,011.5 | 638.8 | 414.5 | 457.3 | 1.5x |
| ***2003*** | 1,496.2 | 1,305.1 | 913.4 | 546.6 | 769.9 | 1.7x |
| ***2004*** | 2,014.6 | 1,659.6 | 1,232.4 | 584.0 | 601.3 | 1.5x |
| ***2005*** | 3,912.6 | 3,247.0 | 2,893.5 | 430.1 | 328.4 | N/M |
| ***2006*** | 9,167.1 | 5,837.9 | 5,162.6 | 110.4 | 134.1 | N/M |
| ***2007*** | 16,007.4 | 6,748.0 | 5,684.0 | 105.7 | 31.2 | N/M |
| ***2008*** | 10,894.3 | 2,593.5 | 2,205.6 | 16.6 | (0.7) | N/M |
| ***Authorized*** [11] | 2,517.2 | - | - | - | - | N/A |
| ***Total*** | **65,313.7** | **39,531.2** | **23,139.5** | **11,985.7** | **14,184.2** | **1.2x** |

[10] Realized gains include interest, dividends, gains and losses distributed by the general partners in addition to interest paid by CalPERS for participation in subsequent closings of certain investments.

[11] These commitments have been authorized subject to satisfactory final due diligence, negotiation of investment terms and conditions and completion of all legal documents, including opinions of counsel regarding the preservation of CalPERS' limited liability status, and no material changes to the investment opportunity.

## D. SIGNIFICANT EVENTS/ MATERIAL EXCEPTIONS TO POLICY (AS REPORTED BY THE AIM PROGRAM)

**Significant Events**

- During Q3 2008, the AIM Program closed on a portion of its planned secondary sale of partnership investments.

- No other events to report for the quarter ended September 30, 2008.

**Material Exceptions to Policy**

- None to report for the quarter ended September 30, 2008.

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February 17, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

**I. SUBJECT:** Proxy Voting – Quarterly Report Results

**II. PROGRAM:** Public Markets

**III. RECOMMENDATION:** Consent Item

**IV. ANALYSIS:**

On a quarterly basis, staff provides a report on CalPERS' proxy voting results to the Investment Committee. This supplemental item provides detailed results on CalPERS' proxy votes for the period October 1, 2008 to December 31, 2008. Staff is delegated the authority and responsibility to execute all proxies and voting instructions in a manner that is consistent with the Board's Global Proxy Voting Principles.

Table 1 below provides a summary of CalPERS' internal proxy voting results for the period. Staff continues to update this table to provide the Committee with a 5-quarter rolling analysis of CalPERS' proxy voting results.

**Table 1: Summary of CalPERS proxy voting results**

| Period | Approximate Number of Meetings Voted | Approximate Number of Individual Items Voted | Number of Shareowner Proposals Voted | Percent of Shareowner Proposals Supported |
|---|---|---|---|---|
| 10/01/08 to 12/31/08 | 1,437 | 9,086 | 37 | 60% |
| 07/01/08 to 09/30/08 | 1,308 | 8,819 | 35 | 64% |
| 04/01/08 to 06/30/08 | 5,797 | 53,917 | 743 | 72% |
| 01/01/08 to 03/31/08 | 1,042 | 6,695 | 46 | 67% |
| 10/01/07 to 12/31/07 | 1,164 | 6,981 | 38 | 81% |

**Source: Glass Lewis (Viewpoint)**

In addition to the previous summary, we have prepared detailed reports of CalPERS' proxy votes cast during the period October 1, 2008 to December 31, 2008 as attachments for this item. Although the attachments are not included in the agenda materials due to their size, they may be requested through the Investment Committee Secretary.

**Attachment 1** contains the internal proxy voting decisions made in CalPERS' domestic portfolios and CalPERS' international portfolios, including staff comments.

**PROXY VOTING HIGHLIGHTS FOR THE DOMESTIC AND INTERNATIONAL PORTFOLIOS October 1, 2008 to December 31, 2008:**

**1) Executive Compensation:**

CalPERS voted **AGAINST** the following executive compensation plans (Table 2):

**Table 2: Votes AGAINST executive compensation plans**

| Company | Meeting | Reason |
|---|---|---|
| Northfield Laboratories Inc. | 10/1/08 | CalPERS believes equity grants should have minimum vesting periods of at least 3 years. |
| Zhone Technologies Inc. | 10/15/08 | The plan contains an evergreen provision. |
| Action Products International Inc. | 11/11/08 | The plan allows for reload stock options and equity grants should have minimum vesting periods of at least 3 years. |
| Cumulus Media Inc. | 11/19/08 | The plan allows for the repricing of stock options. |
| IDT Corp. | 12/16/08 | CalPERS believes the plan is too costly when compared to its peers. |

**2) Shareowner proposals:**

CalPERS voted **FOR** of the following shareowner proposals (Table 3):

**Table 3: Votes FOR of shareowner proposals**

| Company | Meeting | Proposal | Reason |
|---|---|---|---|
| Kansas City Southern | 10/7/08 | Regarding Performance-Based Pay | CalPERS is a firm supporter of pay for performance. |
| Cintas Corp. | 10/13/08 | Advisory Vote on Executive Compensation | CalPERS believes an advisory vote on executive compensation will benefit shareowners and the company. |
| Texas Industries Inc. | 10/20/08 | Request Regarding Sustainability Reporting | CalPERS believes the proposal poses no long-term harm to the company. |
| Sysco Corp. | 11/18/08 | Declassify the Board of Directors | CalPERS believes every director should be elected annually. |
| United Natural Foods Inc. | 12/12/08 | Report on Human Rights Standards | CalPERS recommends that corporations adopt maximum progressive practices toward the elimination of human rights violations in all countries or environments in which the Company operates. |

CalPERS voted **AGAINST** the following shareowner proposals (Table 4):

**Table 4: Votes AGAINST shareowner proposals**

| Company | Meeting | Proposal | Reason |
|---|---|---|---|
| Jefferson Bancshares | 10/30/08 | Proposal to Sell the Company | CalPERS believes management and the board are best suited to make these types of business decisions. |
| Sun Microsystems Inc. | 11/5/08 | Regarding the Formation of a Board Committee on Human Rights | CalPERS is a firm supporter of the protection of Human Rights. However, we believe the board is best suited to make the determination whether or not to develop committees other than those required by law. |

### 3) Website votes:

The following is a sample of Website votes cast during the quarter (Table 5):

**Table 5: Website votes cast**

| Company/Date | Issue | Vote | Reason |
|---|---|---|---|
| Oracle Corp. 10/9/08 | Advisory Vote on Executive Compensation | For | CalPERS believes an advisory vote on executive compensation will benefit shareowners and the company. |
| Sara Lee Corp. 10/30/08 | Director Election | Against | Withhold from director nominee nominee V. Colbert for failing to attend at least 75% of the meetings of the board. |
| Cardinal Health Inc. 11/5/08 | Proposal on Pay for Performance | For | CalPERS is a firm supporter of pay for performance. |
| Microsoft Corp. | Proposal Regarding Charitable Contributions | For | CalPERS believes the proposal does not pose long-term harm to the company. |

### 4) International Proxy Voting:

A sample of International votes cast **AGAINST** management during the quarter (Table 6):

**Table 6: International AGAINST votes cast**

| Company | Country | Issue | Reason |
|---|---|---|---|
| Eaga PLC 10/16/08 | United Kingdom | Elect Directors | Withhold from nominee John Clough. The compensation committee should be composed of a majority of independent directors. |
| Mcbride PLC 10/27/08 | United Kingdom | Stock Option Plan | Stock options should vest over a period of three years. |
| Ashmore Group 12/15/08 | Denmark | Appoint Auditor | CalPERS believes services for non-audit related fees are excessive. |

**5) Mergers & Acquisitions:**

A sample of votes for mergers and acquisitions during the quarter (Table 7):

**Table 7: Votes cast for mergers acquisitions**

| Target | Acquirer | Date | Vote | Rationale |
|---|---|---|---|---|
| National City | PNC Financial | 12/23/08 | For | CalPERS believes the merger makes economic sense because of the market premium offered and expected strategic synergies. |
| Wachovia | Wells Fargo | 12/23/08 | For | CalPERS believes the merger makes economic sense because of the market premium offered and expected strategic synergies. |

## V. STRATEGIC PLAN:

This item is not a product of either the 2008-09 Strategic or Annual Plan.

## VI. RESULTS/COSTS:

Costs associated with proxy voting are contained within the Investment Office budget.

Todd Mattley
Investment Officer

Bill McGrew
Portfolio Manager

Eric Baggesen
Senior Investment Officer

Theodore H. Eliopoulos
Interim Chief Investment Officer

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February 17, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

**I. SUBJECT:** Corporate Governance Quarterly Co-Investment Program Performance Review

**II. PROGRAM:** Global Equity

**III. RECOMMENDATION:** Information Only

**IV. ANALYSIS:**

**Executive Summary**

This agenda item addresses the performance of the Corporate Governance Co-Investment Program (the Program). The Program manages $546 million of assets as of December 31, 2008. The objectives of the Program are:

- Produce a positive alpha through the generation of superior investment returns with co-investment opportunities.

- Identify new co-investment opportunities to take advantage of innovative and sustainable investment strategies.

The portfolio managed within the Program tends to be very concentrated with few holdings, and has a very deep “value” style bias. The portfolio positions taken are limited to those situations where the external partners believe an engagement process can affect positive investment returns.

**Performance**

There are five positions in the Corporate Governance Co-Investment Program’s portfolio. The long-term performance results relative to the benchmark are excellent as shown by Attachment 1 where the 1-year and since inception numbers demonstrate positive value added of 13.59% and 11.81% respectively.

**V. STRATEGIC PLAN:**

Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

**VI. RESULTS/COSTS:**

The costs associated with this item are minimal as they are already absorbed by other ongoing CalPERS investment programs.

Celina Lu
Investment Officer
Corporate Governance

Aeisha Mastagni
Investment Officer
Corporate Governance

Mike Riffle
Portfolio Manager
Corporate Governance

Eric Baggesen
Senior Investment Officer
Global Equity

Theodore H. Eliopoulos
Interim Chief Investment Officer

**Attachment 1**

**Corporate Governance Co-Investment Program Quarterly Performance Detail**
**For the Period Ending December 31, 2008**

| FUND NAME | Number of Positions | Ending Market Value ($) | Capital Contributed | Capital Distributed | QTR (%) | FYTD (%) | 1 Year (%) | 3 Years (%) | 5 Years (%) | Since Inception (%) |
|---|---|---|---|---|---|---|---|---|---|---|
| GOVERNANCE FOR OWNERS CO-INVESTMENT | 2 | 169,619,401 | | | -8.98 | -30.54 | -45.91 | | | -38.94 |
| FTSE ALL WORLD EUROPE | | | | | -23.73 | -40.06 | -46.99 | | | -34.22 |
| KNIGHT VINKE CO-INVESTMENT | 1 | 126,495,433 | | | -9.90 | -34.07 | -31.01 | | | 4.48 |
| FTSE ALL WORLD EUROPE | | | | | -23.73 | -40.06 | -46.99 | | | -10.24 |
| NEW MOUNTAIN CO-INVESTMENT | 1 | 84,156,100 | | | -23.74 | -43.00 | -31.60 | | | -6.93 |
| S&P 500 INDEX | | | | | -21.94 | -28.48 | -37.00 | | | -15.92 |
| RELATIONAL CO-INVESTMENT | 1 | 165,533,068 | | 53,313,379 | -10.53 | -2.93 | -14.80 | 0.77 | 11.42 | 16.22 |
| CALPERS CUSTOM INTERNAL RELATIONAL (BENCHMARK) | | | | | -21.96 | -28.48 | -37.01 | -8.53 | -1.92 | 2.81 |
| **TOTAL CORPORATE GOVERNANCE CO-INVESTMENT** | **5** | **545,804,002** | | **53,313,379** | **-12.08** | **-25.29** | **-28.62** | **-3.24** | **8.75** | **13.90** |
| **CALPERS CORPORATE GOVERNANCE INTERNAL (BENCHMARK)[1]** | | | | | **-22.67** | **-34.49** | **-42.21** | **-9.85** | **-2.77** | **2.09** |
| **Excess** | | | | | **10.59** | **9.20** | **13.59** | **6.61** | **11.52** | **11.81** |

State Street methodology is CFA Institute compliant.
All figures are net of all fees for periods ending December 31, 2009.
Inception dates for each manager are based on the initial investment.
[1]The benchmark for the Program is the portfolio market value weighted total return for the benchmark for each external partner with whom an actual co-investment has been made.

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February 17, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

**I. SUBJECT:** Internally Managed Domestic Fixed Income (Quarter Ended December 31, 2008)

**II. PROGRAM:** Dollar-Denominated Fixed Income

**III. RECOMMENDATION:** Information Only

**IV. ANALYSIS:**

Attached is a report that reviews compliance of the Internally Managed Domestic Fixed Income Portfolio to approved policy guidelines for the quarter ended December 31, 2008.

The Investment Committee approved the "Statement of Internally Managed Dollar Denominated Fixed Income Policy, Guidelines and Procedures" at its May 12, 2008 meeting. As recommended by the Investment Policy Subcommittee, these guidelines require at least quarterly reporting on relative duration, sector weightings, and violations of the policy.

Section I of the report graphically displays interest rate risk of the portfolio by comparing its duration relative to that of its benchmark, the Lehman Long Liability Index (LLL). Duration is a measure of price sensitivity to interest rate changes. It is the percentage change in price given a 100 basis point (1 Percent) move in interest rates. As indicated in the graph, the portfolio is well within the guideline of ± 20% of the Lehman Long Liability on an option adjusted basis.

Section II of the report depicts the sector risk of the portfolio. Sector risk is the risk of holding proportions of asset class sectors that differ from proportions in the benchmark index, the Lehman Long Liability. The table lists the permissible range for weightings in each sector, and sector weightings of the Lehman Long Liability and this portfolio. The portfolio is within approved guidelines.

Section III of the report describes violations of the overall policy and guidelines, including investing only in permissible securities and compliance with specified restrictions. There were no violations of policy or guidelines during the quarter ended December 31, 2008.

## V. STRATEGIC PLAN:

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

## VI. RESULTS/COSTS:

The market value of the Internally Managed Domestic Fixed Income Portfolio as of December 31, 2008 was $38.5 billion. This agenda item provides a review of portfolio compliance to its guidelines.

__________________________
Robert Perez
Investment Officer

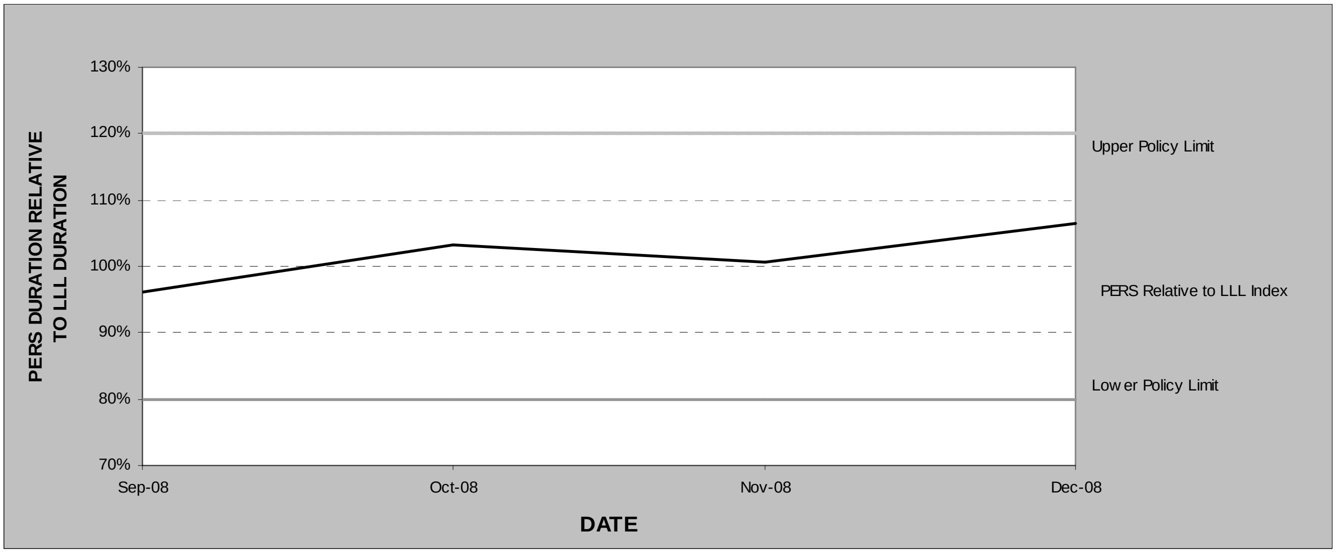
__________________________
Curtis D. Ishii
Senior Investment Officer

__________________________
Theodore H. Eliopoulos
Interim Chief Investment Officer

Attachment A

# QUARTERLY REVIEW OF THE DOMESTIC FIXED INCOME PORTFOLIO ENDING December 31, 2008

## I. Interest Rate Risk




## II. Sector Risk

| SECTOR | PERMISSIBLE RANGE | LONG LIABILITY | 3/31/08 PERS | 6/30/08 PERS | 9/30/08 PERS | 12/31/08 PERS |
|---|---|---|---|---|---|---|
| **Government** | **0-50** | **40** | **21** | **18** | **19** | **25** |
| **Mortgages** | **10-60** | **30** | **42** | **43** | **44** | **34** |
| **Sovereigns** | **0-15** | **3** | **2** | **2** | **2** | **2** |
| **Investment Grade Corporates** | **10-60** | **24** | **31** | **31** | **29** | **34** |
| **Opportunistic[1]** | **0-19** | **3** | **4** | **6** | **6** | **5** |

[1] *High Yield*

## III. Violations to Policy:

None

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February 17, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

**I. SUBJECT:** Internally Managed Lehman Aggregate Fixed Income (Quarter Ended December 31, 2008)

**II. PROGRAM:** Lehman Aggregate

**III. RECOMMENDATION:** Information Only

**IV. ANALYSIS:**

Attached is a report that reviews compliance of the Internally Managed Lehman Aggregate Program to approved policy guidelines for the quarter ended December 31, 2008.

The Investment Committee approved the “Statement of Lehman Aggregate Program Policy, Guidelines and Procedures” at its May 12, 2008 meeting.  As recommended by the Investment Policy Subcommittee, these guidelines require at least quarterly reporting on relative duration, sector weightings, and violations of the policy.

Section I of the report graphically displays interest rate risk of the portfolio by comparing its duration relative to that of its benchmark, the Lehman Brothers Aggregate Index (LEH_AGG).  Duration is a measure of price sensitivity to interest rate changes.  It is the percentage change in price given a 100 basis point (1 Percent) move in interest rates.  As indicated in the graph, the portfolio is well within the guideline of ± 20% of the Lehman Brothers Aggregate Index on an option adjusted basis.

Section II of the report depicts the sector risk of the portfolio. Sector risk is the risk of holding proportions of asset class sectors that differ from proportions in the benchmark index, the Lehman Brothers Aggregate. The table lists the permissible range for weightings in each sector, and sector weightings of the Lehman Brothers Aggregate Index and this portfolio. The portfolio is within approved guidelines.

Section III of the report describes violations of the overall policy and guidelines, including investing only in permissible securities and compliance with specified restrictions. There were no violations of policy or guidelines during the quarter ended December 31, 2008.

## V. STRATEGIC PLAN:

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

## VI. RESULTS/COSTS:

The market value of the Internally Managed Lehman Aggregate Program as of December 31, 2008 was $500.2 million. This agenda item provides a review of portfolio compliance to its guidelines.

Robert Perez
Investment Officer

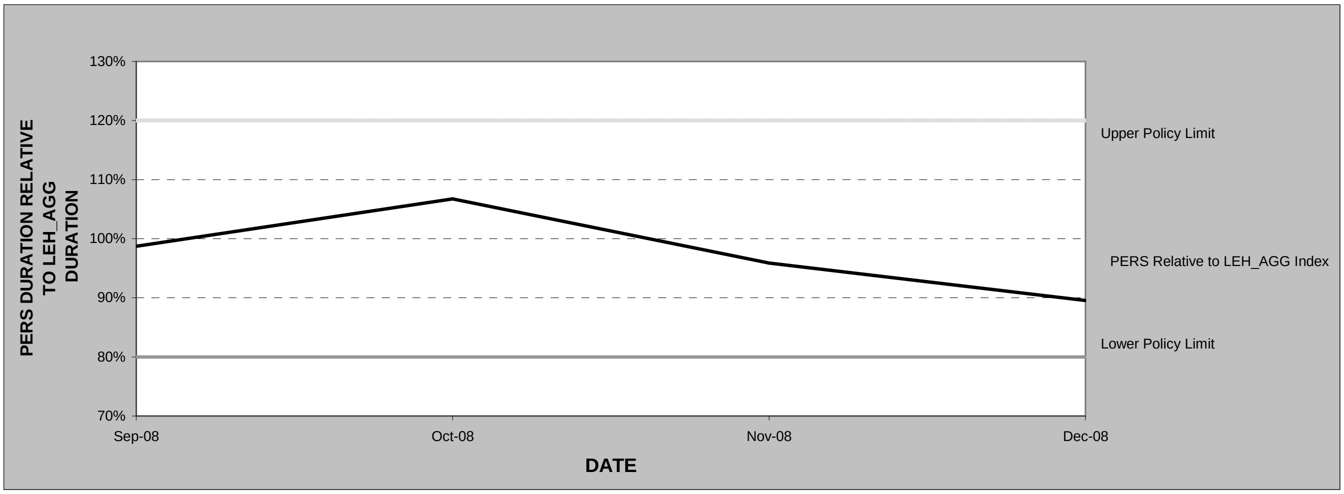
Kevin Winter
Senior Portfolio Manager

Curtis D. Ishii
Senior Investment Officer

Theodore H. Eliopoulos
Interim Chief Investment Officer

# QUARTERLY REVIEW OF THE LEHMAN AGGREGATE PROGRAM ENDING September 30, 2008

## I. Interest Rate Risk




## II. Sector Risk

| SECTOR | PERMISSIBLE RANGE | LEHMAN AGGREGATE | 3/31/08 PERS | 6/30/08 PERS | 9/30/08 PERS | 12/31/08 PERS |
|---|---|---|---|---|---|---|
| US Treasury & Govt. Sponsored | 0-80 | 32 | 21 | 21 | 23 | 26 |
| Securitized | 0-70 | 45 | 52 | 52 | 52 | 49 |
| Corporates | 10-50 | 23 | 27 | 27 | 25 | 25 |
| Opportunistic | 0-20 | 0 | 0 | 0 | 0 | 0 |

## III. Violations to Policy:

None

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February 17, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

**I. SUBJECT:** Internally Managed Treasury Inflation Protected Securities Fixed Income (Quarter Ended December 31, 2008)

**II. PROGRAM:** Treasury Inflation Protected Securities Program

**III. RECOMMENDATION:** Information Only

**IV. ANALYSIS:**

Attached is a report that reviews compliance of the Treasury Inflation Protected Securities Program to approved policy guidelines for the quarter ended December 31, 2008.

The Investment Committee approved the "Statement of Treasury Inflation Protected Securities Program Policy, Guidelines and Procedures" at its May 12, 2008 meeting. As recommended by the Investment Policy Subcommittee, these guidelines require at least quarterly reporting on relative duration, sector weightings, and violations of the policy.

Section I of the report graphically displays interest rate risk of the portfolio by comparing its duration relative to that of its benchmark, the Barclays Capital Global Real: U.S. TIPS Index. Duration is a measure of price sensitivity to interest rate changes. It is the percentage change in price given a 100 basis point (1 Percent) move in interest rates. As indicated in the graph, the portfolio is well within the guideline of ± 10% of the Barclays Capital Global Real: U.S. TIPS Index on an option adjusted basis.

Section II of the report depicts the sector risk of the portfolio. Sector risk is the risk of holding proportions of asset class sectors that differ from proportions in the benchmark index, the Barclays Capital Global Real: U.S. TIPS Index. The table lists the permissible range for weightings in each sector, and sector weightings of the Barclays Capital Global Real: U.S. TIPS Index and this portfolio. The portfolio is within approved guidelines.

Section III of the report describes violations of the overall policy and guidelines, including investing only in permissible securities and compliance with specified restrictions. There were no violations of policy or guidelines during the quarter ended December 31, 2008.

## V. STRATEGIC PLAN:

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

## VI. RESULTS/COSTS:

The market value of the Treasury Inflation Protected Securities Program as of December 31, 2008 was $143.4 million. This agenda item provides a review of portfolio compliance to its guidelines.

Robert Perez
Investment Officer

Christopher Gray
Investment Officer

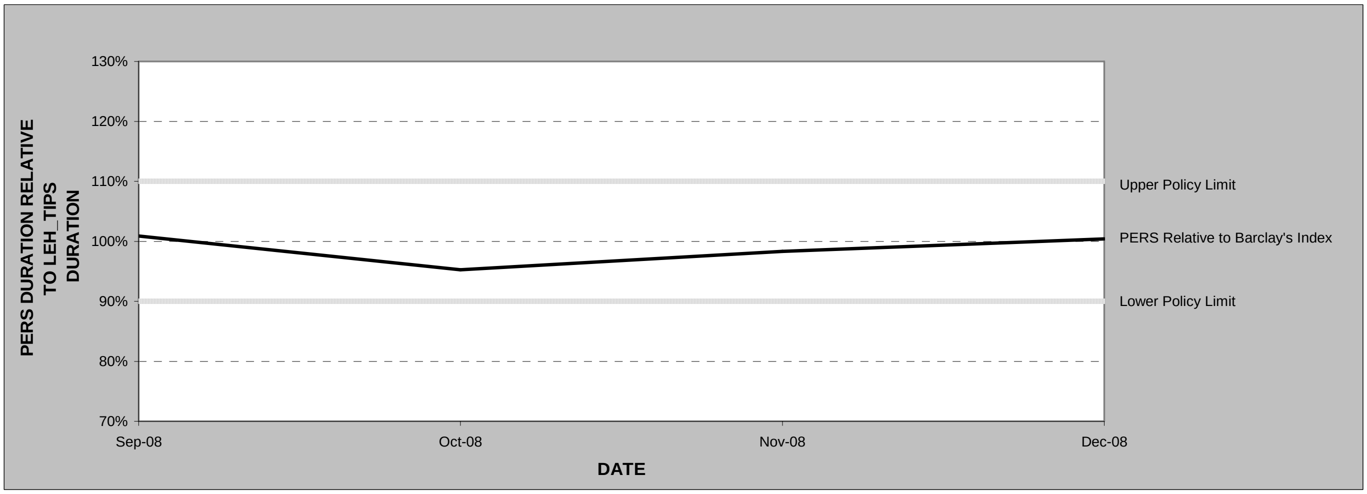
Warren Trepeta
Senior Portfolio Manager

Curtis D. Ishii
Senior Investment Officer

Theodore H. Eliopoulos
Interim Chief Investment Officer

# QUARTERLY REVIEW OF THE TREASURY INFLATION PROTECTED SECURITIES PROGRAM ENDING December 31, 2008

## I. Interest Rate Risk




## II. Sector Risk

| SECTOR | PERMISSIBLE RANGE | BARCLAYS CAPITAL GLOBAL REAL U.S. TIPS INDEX | 3/31/08 PERS | 6/30/08 PERS | 9/30/08 PERS | 12/31/08 PERS |
|---|---|---|---|---|---|---|
| TIPS | 80-100 | 100 | 99 | 98 | 100 | 100 |
| Nominal US Treasury | 0-15 | 0 | 0 | 0 | 0 | 0 |
| STIF | 0-5 | 0 | 1 | 2 | 0 | 0 |

## III. Violations to Policy:

None

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February 17, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

**I. SUBJECT:** Low Duration Fixed Income Funds (Quarter Ended December 31, 2008)

**II. PROGRAM:** Domestic Fixed Income

**III. RECOMMENDATION:** Information Only

**IV. ANALYSIS:**

Attached is a report that reviews compliance of the internally managed Low Duration Fixed Income funds to approved policy guidelines for the quarter ended December 31, 2008.

The Investment Committee approved the “California Public Employees' Retirement System Statement of Investment Policy for Low Duration Fixed Income Program Policy” (Policy) at its May 12, 2008 meeting.  These guidelines require at least quarterly reporting of portfolios duration, sector weightings, fixed and floating rate breakout, security rating scales, and an exceptions report that covers policy violations.  This policy is for the High Quality Libor Fund (HQL), Short Duration Fund (SDF), and the Short Term Fund (ST).  Attachment A is the quarter review of the High Quality Libor Fund.  Attachment B is the quarter review of the Short Duration Fund.  Attachment C is the quarter review of the Short Term Fund.

Section I measures HQL and SDF funds interest rate exposure using portfolio duration and the ST’s interest rate exposure using weighted-average days to maturity.  HQL, SDF, and ST portfolios are within approved guidelines.

Section II lists the portfolio’s allocation by asset class and credit quality as of quarter end.  The table also lists other positions of the fund relative to policy restrictions. HQL, SDF, and ST portfolios are within approved guidelines.

Section III describes violations of the Policy that occurred during the quarter, including investing only in permissible securities and compliance with specified restrictions. There was one violation in the SDF portfolio that was previously noted in the Q3 2008 report. The security was downgraded from BBB to BB due to the downgrade of the monoline insurer guaranteeing this security. Staff analyzed the security and decided that is was in the best interest of CalPERS to hold on the security and allow it to pay off over time.

## V. STRATEGIC PLAN:

This item supports Goal VIII, Objective 4, Strategy C by providing a monitoring system that periodically updates risk management review and findings for the asset class.

## VI. RESULTS/COSTS:

As of December 31, 2008, the market value of the High Quality Libor Fund was $11.4 billion, the market value for the Short Duration Fund was $1.5 billion and the market value of the Short Term Fund was $14.3 billion. The total market value of the Low Duration Fixed Income portfolios as of December 31, 2008 was $27.2 billion. This agenda item reviews the portfolios' compliance to its guidelines.

Prepared by:

______________________________
Robert Perez
Investment Officer

______________________________
Robert Booker
Investment Officer

______________________________
Jean Hsu
Portfolio Manager

______________________________
Curtis D. Ishii
Senior Investment Officer

______________________________
Theodore H. Eliopoulos
Interim Chief Investment Officer

Attachment A

**QUARTER REVIEW OF THE INTERNALLY MANAGED HIGH QUALITY LIBOR FUND ENDING December 31, 2008**

## I. Interest Rate Risk

The policy states that duration of the portfolio shall not exceed 90 days. The portfolio duration of the High Quality LIBOR Fund was 11 days.

## II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits

| Asset Type | Policy Limits | Portfolio Holdings |
|---|---|---|
| STIF Funds | 100% | 1.08% |
| AAA Floating Rate Structured Securities | 100 | 98.92 |
| AAA Fixed Rate Structured Securities | 20 | 0.00 |
| Money Market Securities (>= A1/P1) | 100 | 0.00 |
| Money Market Securities (< A1/P1) | 25 | 0.00 |
| High Quality Libor Fund | | 100.0% |

| Credit Quality | | |
|---|---|---|
| Securities rated AAA (LT) or A1/P1 (ST) or higher | 100% | 100.00% |
| Total Split Rated or A2/P2 money market securities (> 1 day maturity) | 25 | 0.00 |
| High Quality Libor Fund | | 100.0% |

| Other Restriction | | |
|---|---|---|
| Total Fixed Rate Exposure (> 35 day maturity) | 20% | 0.00% |

## III. Violations To Policy

None.

Attachment B

**QUARTER REVIEW OF THE INTERNALLY MANAGED**
**SHORT DURATION FUND ENDING December 31, 2008**

## I. Interest Rate Risk

The policy states that duration of the portfolio shall not exceed 180 days. The portfolio duration of the Short Duration Fund was 4 days.

## II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits

| Asset Type | Policy Limits | Portfolio Holdings |
|---|---|---|
| State Street Bank STIF | 100% | 1.58% |
| AAA Structured Securities | 100 | 48.95 |
| Non AAA Structured Securities | 50 | 19.17 |
| ABL Line Item | 100 | 30.30 |
| Money Market Securities (>= A1/P1) | 100 | 0.00 |
| Money Market Securities (< A1/P1) | 25 | 0.00 |
| Total Corporate Securities | 50 | 0.00 |
| Short Duration Fund | | 100.0% |

| Credit Quality | | |
|---|---|---|
| Securities rated AAA (LT) or A1/P1 (ST) or higher | 100% | 50.53% |
| Total Split Rated and A2/P2 (ST) or non-AAA (LT) | 50 | 49.47 |
| Short Duration Fund | | 100.0% |

| Other Restriction | | |
|---|---|---|
| Total Fixed Rate Exposure (> 35 day maturity | 35% | 0.00% |

## III. Violations To Policy

As previously noted in the Q3 2008 report, S&P downgraded CWL 2006-S5 A1 to a “BB” from a “BBB“. The downgrade was due primarily to its monoline insurer, FGIC, being downgraded. This triggered violation of the following issue: “Structured Securities must be >=Baa2/BBB. Staff reviewed the security and recommended holding the bond for several reasons.

The CWL 06-S5 A1 bond is the first tranche of a sequential pay structure. The underlying collateral is 2nd lien for prime borrower.

In addition to FGIC as a bond level wrapper, this deal also has Old Republic as a pool policy insurer up to 8% of the pool balance.  Old Republic holds A2 senior debt rating and Aa2 insurance financial strength rating (Moody's credit opinion 7/2/08, updated 1/6/09).  This provides an extra layer of protection

Currently, this bond is at 0.199810287 factor and we own 5.99mm current face.  The three-month average voluntary CPR, CDR, and severity are 6.37%, 3.31%, and 60.17% respectively (22.11% of the remaining collateral defaulting).  Under this scenario, the bond will pay off by July of 2010.

The bond was reported to have traded in the low 70s from a bid list last week.  Even if we were to assume both the MI provider and wrapper (FGIC) were insolvent, thus resulting in a 100% severity, the bond would suffer only 1.07% writedown with a principal payment window out to June of 2010.  Under more stressful scenarios where voluntary CPR slows to 5% and CDR increases to 5% (33.16% defaulting) with a 100% severity, the writedown would be 2.59% with a principal payment window out to September of 2010.  The writedown would be 6.48% if CDR would increase to 10% (53% defaulting), with the final principal payment coming in October of 2010.  Therefore, staff believes liquidating at prices below $93 would not be prudent.

Attachment C

**QUARTER REVIEW OF THE DOMESTIC**
**SHORT-TERM FUND ENDING December 31, 2008**

## I. Interest Rate Risk

The weighted-average days to maturity of the Short-Term Fund was 1 day.

## II. Asset Allocation by Asset Type and Credit Quality, and Other Policy Limits

| Asset Type | Policy Limits | Portfolio Holdings |
|---|---|---|
| State Street Bank STIF | 100% | 100.00% |
| U.S. Treasury and Agencies | 100 | 0.0 |
| Repurchase Agreements | 20 | 0.0 |
| Corporate Securities | 100 | 0.0 |
| Asset-Backed Securities | 25 | 0.0 |
| Total Short-Term Fund | | 100.0% |

| Credit Quality | | |
|---|---|---|
| Securities rated A1/P1 or higher | 100% | 100.00% |
| Total Split Rated and A2/P2 | 30 | 0.00 |
| Total Short-Term Fund | | 100.0% |

| Other Restriction | | |
|---|---|---|
| Total Floating Rate Exposure | 50% | 0.0% |

## III. Violations To Policy

None.

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February 17, 2009

**SUPPLEMENTAL ITEM**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

**I. SUBJECT:** Quarterly Public Records Act Requests

**II. PROGRAM:** Legal Office

**III. RECOMMENDATION:** None - Information Only

**IV. ANALYSIS:**

The following is attached:

A. Quarterly Public Records Act Requests Report

**V. STRATEGIC PLAN:**

This item is not a specific product of either the Strategic or Annual Plans, but is part of the ongoing workload of the General Counsel and the Legal Office.

**VI. RESULTS/COSTS:**

This information is provided to assist the Board in its oversight of responsibilities delegated to its staff. Providing the information does not involve any additional costs to the System, but results in the dual benefits of greater Board awareness of issues and greater disclosure to CalPERS' participants.

PETER H. MIXON
General Counsel

# PUBLIC RECORDS ACT REQUESTS
## October 1, 2008 – December 31, 2008

| Request Date | Requester | Subject | Response |
|---|---|---|---|
| 11/13/08 | Media | Investment-related | Response in progress. |
| 12/09/08 | Business | Request for information regarding:<br>• AON Corporation<br>• Owens Corning | Response in progress. |